

<p>1 KARLEEN CARLSON STRAYER 2 renegotiate this covenant? 3 A. Because in my experience, it's not 4 common for a healthcare entity to renegotiate 5 a set of documents to their detriment and 6 potentially create a situation where they will 7 be in default of a covenant. They would be -- 8 that would be very inadvisable for them to do 9 something like that and I think they were way 10 too smart for that. 11 Q. Right. AHERF's management got a 12 good deal in this covenant and they weren't 13 going to give it up? 14 MR. WITTEN: Objection. 15 MS. HACKETT: Objection, that's 16 inappropriate to ask her. 17 MR. KRUSKO: I press the question. 18 I don't think it's inappropriate; I'm not 19 trying to be argumentative. 20 Q. I would just simply like your view 21 as to whether AHERF's management thought they 22 got a good deal and they weren't going to 23 negotiate this test away? 24 A. You know, it's hard for me to 25 comment on that because any time a deal is</p>	<p>Page 319</p> <p>1 KARLEEN CARLSON STRAYER 2 Q. Do you recognize this as an e-mail 3 message from you to Patrick L. Mathis sent 4 Wednesday, December 9th, 1998 at roughly 2:11 5 in the afternoon? 6 A. Only because that's what it says; 7 I don't have -- I don't remember this specific 8 e-mail. 9 Q. Okay. Did you have any reason to 10 doubt that you did, in fact, send this e-mail 11 to Mr. Mathis? 12 A. No, I don't have any reason to 13 doubt that. 14 Q. In this time frame, December 1998, 15 was Mr. Mathis your boss? 16 A. December 1998, yes, he was. 17 Q. Do you recall the impetus for your 18 e-mail to Mr. Mathis? 19 A. I don't know why I would have done 20 this. I mean, clearly I'm conveying a lessons 21 learned and something we should think about in 22 future underwriting but why at this point in 23 time I decided to do that, I don't know. 24 I'm calling it an "AHERF memo 25 addition," I don't know what that means.</p>
<p>1 KARLEEN CARLSON STRAYER 2 done of this sort, the bond documents are 3 substantial and there are many, many tests 4 within the documents, and the way these things 5 get decided is through a negotiation process. 6 So, I, I can't say nothing privy 7 to that negotiation process, whether AHERF's 8 management thought -- had specifically 9 negotiated this point, whether it was a 10 carry-over from some other documents, I don't 11 know how that got in there and whether the 12 management team thought that was a good thing 13 or a bad thing. Maybe they had asked for a 12 14 percent in total assets and were disappointed 15 at the eight, I don't know. 16 Q. Okay. 17 (Deposition Exhibit 2196 for 18 identification, an e-mail message to Patrick 19 L. Mathis, production numbers MBIA-SUB 01011.) 20 Q. Let me show you what we've marked 21 as Exhibit 2196. 22 MR. KRUSKO: For the record, I 23 would note that Exhibit 2196 bears the Bates 24 number MBIA-SUB 01011. 25 A. Okay.</p>	<p>Page 320</p> <p>1 KARLEEN CARLSON STRAYER 2 Q. Let me ask you more generally: Do 3 you recall writing a AHERF memo, something 4 with the title "AHERF memo"? I'm just trying 5 to understand your reference to the 6 subheading. 7 A. I don't recall. I wrote many 8 memos on AHERF and I'm not sure to what I'm 9 referring it here. 10 Q. You and I have both written many 11 memos on AHERF. 12 The heading which appears in bold 13 is: "Standard Asset Transfer Provisions Do 14 Not Protect Us Against Large Cash Transfers." 15 Do you see that? 16 A. Yes . 17 Q. I take it that is your conclusion 18 and then you provide some support for that 19 conclusion in the passage immediately below 20 it? 21 A. Yes. 22 Q. In the last line, you have written 23 "Two lessons here: One, our standard asset 24 transfer test should incorporate a second test 25 specifically restricting cash transfers, and</p>

13 (Pages 319 to 322)

<p>1 KARLEEN CARLSON STRAYER 2 though, is that I'm expressing frustration 3 that there was no covenant triggered and our 4 hands were tied, in effect, because we're 5 seeking a way to trigger something so that we 6 have some leverage and nothing is getting 7 triggered; I think that's a key point here. 8 Q. It's your recollection that the 9 DVOG entities filed for bankruptcy without 10 triggering any violation of any covenant in 11 the MBIA bond documents? 12 MR. WITTEN: Objection. 13 A. Well, I, at the time of the 14 bankruptcy filing, my recollection is that it 15 was our belief that we did not have a covenant 16 breach, but my understanding subsequent to 17 that is that we actually did have a covenant 18 breach, it just wasn't presented in the 19 financial statements. 20 Q. What covenant breach or what 21 possible covenant breach are you referring to? 22 A. It's my understanding, and again, 23 this is all subsequent to the bankruptcy 24 filing, that the 1996 financial statement 25 should have indicated a different net income</p>	<p>Page 343</p> <p>1 KARLEEN CARLSON STRAYER 2 can't really instruct you to answer or not to 3 answer. 4 MS. HACKETT: Well, you could 5 follow his advice. 6 And she can answer, again, to the 7 extent it's not based on advice from counsel, 8 but if it's based on advice from counsel, you 9 should not answer the question. 10 THE WITNESS: I'm sorry, if it's 11 not based on advice, does that mean if it's 12 not based on things that I've heard from 13 counsel or? 14 MS. HACKETT: Correct, if it's not 15 based on what you've been told or in meetings 16 with counsel, you can answer, but if it's been 17 based on information gathered by or learned 18 from meetings with counsel, you should not 19 answer the question based upon the 20 attorney-client privilege. 21 THE WITNESS: Okay. Well, I think 22 I cannot answer the question, then. 23 Q. What covenant was possibly 24 violated as a result of this supposed 25 incorrect net income amount in fiscal year</p>
<p>1 KARLEEN CARLSON STRAYER 2 number, and had the correct number been used 3 there would have been a covenant breach at 4 that time. 5 Q. Are you referring to the FY '96 6 audited financial statements for DVOG? 7 A. Yes. 8 Q. What's your understanding as to 9 what the net income number should have been in 10 fiscal year 1996 for the DVOG? 11 MR. WITTEN: I have to object to 12 the extent that this will cause -- this 13 question invades the attorney-client 14 privilege. 15 MR. KRUSKO: Are you instructing 16 her not to answer? 17 MR. WITTEN: No, because I'm not 18 entirely sure I know what the answer is but to 19 the extent that the question, to the extent 20 that you answer the question and it requires 21 you to divulge conversations that you've had 22 with your counsel or counsel to the creditors 23 committee, then that would be attorney-client 24 privilege. 25 Since you're not my witness, I</p>	<p>Page 344</p> <p>1 KARLEEN CARLSON STRAYER 2 1996? 3 A. The rate covenant calculation. 4 Q. Do you have an understanding as to 5 what it should have been? 6 MR. WITTEN: Objection. 7 MS. HACKETT: That would be the 8 same objection. 9 MR. WITTEN: Same objection. 10 MS. HACKETT: Because that's, in 11 essence, the same question. So therefore -- 12 MR. KRUSKO: Well, the ball's in 13 the witness' court. I think now it's based on 14 whether she has an understanding, for one 15 thing, and whether that understanding was 16 gained through conversations with counsel. 17 MS. HACKETT: I disagree with you 18 and I'm instructing her not to answer because 19 I think you're asking her the same thing. 20 Now, to the extent she thinks she 21 can answer because she learned information 22 independent from counsel, again, she knows she 23 can answer it. 24 A. I did not learn it independent of 25 counsel.</p>

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1 KARLEEN CARLSON STRAYER
 2 Q. Do you recall being frustrated in
 3 the general 1997 to 1998 time frame, I guess
 4 leading up to the bankruptcy in July of '98,
 5 about the fact that there hadn't been any rate
 6 covenant violation that could have resulted in
 7 MBIA taking remedial action?
 8 A. Yes.
 9 Q. And did you express that
 10 frustration to anyone at MBIA?

11 A. I can't recall.

12 Q. Did you memorialize that
 13 frustration in any sort of writing, did you
 14 write a memo to files or did you write a memo
 15 to anyone else that you can recall, perhaps?

16 MR. WITTEN: Objection.

17 A. Well, in some sense, the memo I've
 18 written here is one indication. I would not
 19 have -- I would have had no reason to write a
 20 memo to the file saying I'm frustrated that
 21 they haven't breached their covenant, but in
 22 any remedial situation we are always focused
 23 on the covenant and looking for the breach
 24 because that is the only source of leverage,
 25 real leverage we have.

1 KARLEEN CARLSON STRAYER
 2 And it also is important to us
 3 because often, when we go to speak to
 4 management and the board, we get a little
 5 more-receptive audience when we actually walk
 6 in the door and we have a covenant breach.
 7 So it's something that is very
 8 typical for us to look for. And the fact that
 9 AHERF had the kinds of numbers they did coming
 10 out in '96 and '97, and there was nothing
 11 being breached, I'm sure I was extremely
 12 frustrated during that whole time, but did I
 13 put a memo in the file about it, no, I suspect
 14 I did not. It would have been inferred from
 15 memos similar to this.

16 Q. I think you alluded to this
 17 earlier, though: The covenants were
 18 established as a result of the negotiation
 19 process between MBIA and AHERF, such that once
 20 the policies were made effective and the bonds
 21 issued, there was nothing that MBIA could do
 22 to change those covenants outside of the
 23 context of a covenant violation?

24 A. That's right.
 25 (Deposition Exhibit 2197 for

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 22 to change those covenants outside of the
 23 context of a covenant violation?

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 25 (Deposition Exhibit 2197 for

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1 KARLEEN CARLSON STRAYER
 2 identification, a memorandum dated July 23rd,
 3 1998, production numbers MBIA 030071 through
 4 MBIA 030076.)

5 MR. WITTEN: 2197?
 6 MR. KRUSKO: That's right.
 7 MR. KRUSKO: For the record, I
 8 would note that Exhibit 2197 bears the Bates
 9 numbers MBIA 030071 through MBIA 030076.

10 Q. Ms. Strayer, do you recognize this
 11 document?

12 A. Yes.
 13 Q. Do you recognize this document as
 14 a memorandum that you and David Stevens wrote
 15 for Dick Weill dated July 23rd, 1998?

16 A. Yes, I think I wrote it and David
 17 reviewed it.

18 Q. The subject line on the first page
 19 of this exhibit states "AHERF talking points
 20 for Fidelity visit." Do you see that?

21 A. Yes.

22 Q. What did you refer to there?

23 A. I am preparing talking points
 24 because, evidently, Dick Weill is going to
 25 participate in a meeting with Fidelity.

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1 KARLEEN CARLSON STRAYER
 2 Q. In this time frame, Fidelity was
 3 an investment company?

4 A. Yes. Fidelity typically buys many
 5 MBIA bonds, MBIA insured bonds, so they are a
 6 large bondholder.

7 Q. These are bonds, just to be clear,
 8 issued by MBIA so that MBIA can raise debt?

9 A. No. I actually was referring to
 10 -- it's possible Fidelity owns our corporate
 11 bonds.

12 Q. Oh.

13 A. But Fidelity is a large purchaser
 14 of MBIA insured bonds in the market.

15 Q. Thanks. I just re-read your
 16 answer, I noticed that you did say "MBIA
 17 insured bonds."

18 Do you have a sense as to the
 19 dollar value of the bonds owned by Fidelity in
 20 this time frame?

21 A. I don't.

22 Q. Do you recall why Mr. Weill was
 23 scheduled to visit with representatives of
 24 Fidelity in this time frame?

25 A. I think in this time frame because

<p>1 KARLEEN CARLSON STRAYER 2 THE VIDEO OPERATOR: Going off the 3 record at 11:39. This is the end of tape 4 number four. 5 (Luncheon Recess taken: 11:39 6 a.m.) 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25</p>	<p>Page 367</p> <p>1 KARLEEN CARLSON STRAYER 2 entities coming from the Western entities. We 3 still had a view that the Western entities 4 were fairly strong so we wanted to see a 5 guarantee of some sort or a combination of 6 obligated groups that would support the 7 entities in the East, specifically, DVOG. 8 Q. Some sort of binding guarantee, I 9 take it? 10 A. Yes, it would have had to be a 11 binding guarantee to be worth anything to us, 12 yes. 13 Q. What other initial preferences did 14 MBIA have at this time frame, in this time 15 frame with respect to remediation? 16 A. Again, could you repeat the time 17 frame you're talking about? 18 Q. Calendar 1997. 19 A. Calendar 1997? 20 Q. Yes. 21 A. Well, certainly at the beginning 22 of the year, a preference was that they 23 preserve their cash and I don't know if you 24 want to characterize that as a remedial issue 25 or not.</p>
<p>1 KARLEEN CARLSON STRAYER 2 A F T E R N O O N S E S S I O N 3 12:22 p.m. 4 THE VIDEO OPERATOR: Beginning 5 tape number five and returning to the record 6 at 12:22. 7 K A R L E E N C A R L S O N S T R A Y E R , 8 resumed, having been previously duly sworn, 9 was examined and testified further as follows: 10 C O N T I N U E D E X A M I N A T I O N 11 B Y M R . K R U S K O : 12 Q. Welcome back, Ms. Strayer. Before 13 the lunch break we were discussing remedial 14 options, and if I understood your testimony 15 correctly, I believe you testified that 16 bringing in a consultant was one of MBIA's 17 first remedial options in the 1997 time frame. 18 A. It was one of our first remedial 19 preferences but it wasn't an option for us. 20 Q. What were some of the other 21 initial remedial preferences that MBIA had at 22 this point in time, 1997? 23 A. I think in that time frame, one of 24 the things we would have liked to have seen 25 was some sort of guarantee of the DVOG</p>	<p>Page 368</p> <p>1 KARLEEN CARLSON STRAYER 2 I'm sure if we could have been 3 able to get them to agree to a day's 4 cash-on-hand covenant we would have done so, 5 so that's something we often look for when we 6 do remediations. 7 As 1997 went on, we began to have 8 discussions with them about their plans to 9 sell parts of the system to Vanguard and that 10 was an attractive remedial option to us; 11 again, I don't know if you would characterize 12 that as "remedial" but that's something that 13 we certainly would view as a positive; so, we 14 had discussions about that. 15 I think that we may have talked 16 about, I believe, AHERF, the parent, had a 17 foundation or somewhere in the system was a 18 foundation that we thought had some cash in 19 it, so we were looking at that. 20 You know, had we had the choice, 21 I'm sure we would have tried to get additional 22 security. And again, I mean, without a 23 covenant breach, we didn't have a right to do 24 any of this. Had we had leverage and 25 understood the full extent of the problem, we</p>

<p>1 KARLEEN CARLSON STRAYER 2 might have been able to get some of these. 3 And I would also add if we could 4 have, if we could have better understood the 5 full extent of the problem and the board had 6 better understood the full extent of the 7 problem, there might have been actions that we 8 could have convinced them to take, and those 9 could have also included sales of other assets 10 and even at times we go seeking some sort of 11 political support because, obviously, there 12 were a lot of jobs on the line, these were 13 non-profit entities, so there were a lot of 14 constituents in the city and the state that 15 would have an interest in the financial 16 health.</p> <p>17 And, you know, that also is a 18 remedial option in times to finding support in 19 the city and state.</p> <p>20 Q. As of the fall of 1997, did you or 21 any member of your staff at your direction ask 22 AHERF for a guarantee of financial support 23 from the Western AHERF entities to the Eastern 24 AHERF entities?</p> <p>25 A. My recollection is that we did</p>	Page 371	Page 373
<p>1 KARLEEN CARLSON STRAYER 2 have a conversation like that and it revolved 3 around the fact that around that time period 4 there was dialogue going on with Merrill 5 Lynch, whereby -- and we had meetings about 6 this, as well, whereby we were being asked to 7 take a look at a financing on the East and 8 another financing on the West. 9 And we put a lot of thought into 10 whether we one want to do that. And clearly 11 the only incentive for us to do that was to 12 somehow get support out of the East, so our 13 conversations centered around how do we get 14 that support from the West and how much would 15 we have to insure to make that an attractive 16 alternative to management and the board at 17 AHERF.</p> <p>18 Q. Going by Exhibit 2197, the first 19 page of the "AHERF Actions chronology" that 20 you've sketched out, page 030072, the first 21 instance of Merrill Lynch I see on this page 22 is in November 1997, correct?</p> <p>23 A. Yes.</p> <p>24 Q. So I guess what I'm asking you is, 25 at any point prior to the 1997 time frame, did</p>	Page 372	Page 374

<p>1 KARLEEN CARLSON STRAYER 2 talking to Coopers about how they should treat 3 a line item on the income statement or balance 4 sheet, that wouldn't be something we did. 5 Q. Right, but in this time frame, you 6 and others at MBIA are looking for a covenant 7 violation which will give MBIA certain 8 remedial rights, correct? 9 A. Right. But it's not year-end. I 10 mean, this memo is dated March; their year end 11 is not till June; their financial statements 12 won't come out till three, four months after 13 that; so, they're -- we just, we wouldn't have 14 a reason in March of '98 to be contacting the 15 CPAs about what the June statements might look 16 like and whether or not there's a default. 17 Q. Do you remember, though, when the 18 covenant compliance -- withdrawn. 19 Do you remember any of the 20 covenant compliance reporting dates with 21 respect to the DVOG entities? 22 A. I don't remember. I know our 23 standard requirement is that they come out 24 along with the audits, they would be based on 25 the audits.</p>	<p>Page 455</p> <p>1 KARLEEN CARLSON STRAYER 2 to your testimony yesterday morning; that, 3 subsequent to -- 4 A. Is it yesterday morning? 5 MS. HACKETT: Yes. 6 Q. Yes, believe it or not. 7 A. Okay. 8 Q. Subsequent to the DVOG offering in 9 October of 1996 there was this renegotiation 10 of the reporting requirements? 11 A. Yes. 12 Q. Okay. With respect to page 030075 13 of Exhibit 2197, the April 1998 entry, I take 14 it you and others employed by MBIA met with 15 Mr. Abdelhak and with certain AHERF board 16 members on the same day? 17 A. Yes. 18 Q. And do you recall at that meeting 19 Mr. Abdelhak rejecting the idea of a 20 turn-around consultant being brought in? 21 A. Yes. 22 Q. And was this the first instance 23 that you can recall of anyone at MBIA making a 24 pitch to Mr. Abdelhak that a turn-around 25 consultant be brought in?</p>
<p>1 KARLEEN CARLSON STRAYER 2 Q. So in certain cases, MBIA had 3 standard requirements with respect to, at the 4 very least, reporting requirements; you just 5 used the term "standard requirement"? 6 A. Yes, actually, because reporting 7 requirements are an attachment to our 8 commitment letters, so there is a piece of 9 paper that shows reporting requirements that 10 gets attached to commitment letters; it's used 11 on virtually all of our commitment letters, 12 unless there's a specific negotiation that 13 would otherwise be made for those particular 14 requirements. 15 Q. Do you recall whether such a 16 re-negotiation had occurred with respect to 17 the DVOG entities? 18 A. Well, I only recall that earlier 19 this morning we talked about the fact that the 20 -- that we had agreed to allow them to give 21 their financial statements later than -- we 22 had provided an amendment to the initial 23 documents; so, yes, I guess we had agreed to a 24 change from the initial documents. 25 Q. I see. I think you're referring</p>	<p>Page 456</p> <p>1 KARLEEN CARLSON STRAYER 2 A. This is the first time we had the 3 opportunity to personally sit down in front of 4 him and have a discussion like this. As I 5 mentioned, our earlier meeting, he did not 6 show up for. 7 Q. But you don't happen to recall one 8 way or the other whether that occurred or not, 9 right? 10 A. The meeting that -- 11 Q. The meeting that he didn't show up 12 for? 13 MS. HACKETT: Objection, asked and 14 answered extensively. 15 MR. KRUSKO: I know. 16 MS. HACKETT: Then why ask her 17 again? 18 MR. KRUSKO: Because she's looking 19 now at something, at least narrowing down a 20 monthly time frame for a meeting that might 21 have helped her recall this meeting with 22 Mr. Abdelhak, and I think it's actually a 23 significant event, which is why I asked. 24 I know this is a repetitive 25 question; thank you for bearing with me, but I</p>

<p>1 KARLEEN CARLSON STRAYER 2 think it's an important issue in the case. 3 Q. Do you recall, in addition to 4 Mr. Barnes and Mr. Gumberg, meeting with 5 anyone else at this April 1998 meeting, any 6 other board members, I should say? 7 A. There may have been, there may 8 have been more, I don't recall. Again, I'm 9 sure we did a memo about it but I don't 10 remember right now who was at that meeting. 11 Q. Is this the first time that you 12 recall anyone at MBIA pitching the notion of a 13 turn-around consultant being brought in for 14 the DVOG situation to members of the AHERF 15 board of trustees? 16 A. I believe it was. 17 Q. Did these board members make any 18 representations to you as to what they were 19 going to say to other board of trustees 20 members with respect to this notion of 21 bringing in a turn-around consultant? 22 A. I don't recall. 23 Q. Did you or did anyone else at your 24 direction follow-up with any other board 25 members, subsequent to this meeting, to find</p>	<p>Page 459</p> <p>1 KARLEEN CARLSON STRAYER 2 Ms. Strayer, do you recognize 3 Exhibit 1667 as a site visit memo specific to 4 this April '98 meeting with representatives of 5 AHERF concerning the situation at the DVOG? 6 A. Yes. 7 Q. Does this refresh your 8 recollection that this meeting took place 9 April 29th, 1998? 10 A. Let's see, April 29th... yes. 11 Q. And you participated in the three 12 meetings that are listed here on the first 13 page of the exhibit, a 9 a.m. meeting, a 10 14 a.m. meeting and a 12 p.m. meeting? 15 A. Yes, I'm not remembering right now 16 a 10 a.m. meeting but I'm clearing remembering 17 the 9 and the 12. 18 Q. When you say you're clearly 19 remembering the 9 a.m. meeting, if you turn to 20 the second page which I believe provides a 21 summary of that meeting: 22 Do you recall at this meeting 23 Mr. Abdelhak blaming the difficult revenue 24 environment for the losses of the DVOG? 25 A. Yes.</p>
<p>1 KARLEEN CARLSON STRAYER 2 out whether the parent board as a whole was 3 receptive to the idea of bringing in a 4 turn-around consultant? 5 A. I don't remember that we 6 specifically made that request, no. 7 Q. Do you know why you didn't? 8 A. As I recall, we were having -- we 9 had a consultant helping us and advising us 10 who was well-known in the Philadelphia area, 11 and we were working -- I believe as a result 12 of this meeting we were having a dialogue with 13 the board members about the need to have or 14 not have a university as part of an academic 15 medical center, have a university actually 16 owned by the academic medical center. 17 So there were ongoing 18 conversations during this period of time; 19 whether or not we specifically requested 20 someone to speak to the full board about a 21 consultant, I, I don't recall. 22 Q. Let me show you what we previously 23 marked as Exhibit 1667, and if you could keep 24 that other exhibit at hand, as well, I think 25 these two coincide in some respects.</p>	<p>Page 460</p> <p>1 KARLEEN CARLSON STRAYER 2 Q. And did you agree with that 3 statement Mr. Abdelhak made? 4 A. I agree that -- I would have 5 agreed that that was one of the factors. 6 Q. At this meeting, Mr. Abdelhak 7 apparently estimated a 2- to 300 million 8 dollars loss for fiscal year 1998; do you see 9 that reference? 10 A. Yes. 11 Q. Do you recall him making that 12 representation? 13 A. Yes. 14 Q. Do you recall being concerned at 15 the time about that representation? 16 A. Yes. 17 Q. The middle passage states that 18 Mr. Abdelhak had revised AHERF's strategy and 19 admits that previous strategies have 20 contributed to the current losses; do you see 21 that? 22 A. Yes. 23 Q. Did you take away from this 24 meeting with Mr. Abdelhak the impression that 25 he viewed AHERF's pursuit of an integrated</p>

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1 KARLEEN CARLSON STRAYER
 2 delivery system strategy largely as a failure
 3 at this point in time?
 4 A. I don't know that he specifically
 5 made that comment, but they clearly were going
 6 to shift their strategy, to some extent.
 7 Q. Did you believe at this time
 8 frame, possibly as a result of this meeting,
 9 that AHERF's strategy had largely failed?
 10 A. Certainly, if by "strategy," you
 11 mean the rapid growth strategy, that clearly
 12 had not been either a good strategy or had not
 13 been executed well, one or the other.
 14 Q. Do you know one way or the other
 15 or do you have a view one way or the other
 16 whether it was a good strategy or one that was
 17 just executed poorly by AHERF's management?
 18 A. I would suspect it would be
 19 components of both.
 20 Q. Would you turn with me to page
 21 030212. This is a meeting -- this is a
 22 summary, rather, of a meeting that you,
 23 Mr. Stevens, Ms. Tain, Mr. Reilly and Bob
 24 Cathcart had with David Barnes and Ira
 25 Gumberg, is that right?

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1 KARLEEN CARLSON STRAYER
 2 A. Yes.
 3 Q. Here it states "The board members
 4 appear to be relative open-minded about
 5 re-thinking strategy" at the very top,
 6 correct?
 7 A. Yes.
 8 Q. And in your memo to Mr. Weill,
 9 Exhibit 2197, in referring to this meeting,
 10 you stated "board members appear to be much
 11 more open to our discussions about the need
 12 for a consultant." Do you see that?
 13 A. Yes.
 14 Q. When you left this day of meetings
 15 with AHERF in late April 1998, did you take
 16 away the feeling that the situation at that
 17 point in time at the DVOG could have been
 18 different if the board had been involved
 19 earlier in the remediation efforts with
 20 respect to the DVOG?
 21 A. In what respect?
 22 Q. Well, for one, that a consultant
 23 could have been brought in at some point in
 24 time prior to late April 1998 to help the DVOG
 25 work out its problems.

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 2 things really were.
 3 Q. You stated at the outset of your
 4 testimony just now, "I don't know that we
 5 necessarily could have drawn the conclusion
 6 from this meeting," and then you continued.
 7 I'm not asking to speculate
 8 whether you personally could have or not; I'm
 9 just asking whether you recall concluding
 10 that, had MBIA involved the AHERF board
 11 earlier with respect to remediation efforts,
 12 that the situation at the DVOG could have been
 13 different?
 14 A. No, I don't recall ever drawing
 15 that conclusion.
 16 Q. Do you know why, subsequent to
 17 this meeting, the full AHERF board did not
 18 retain a management consultant in a timely
 19 fashion?
 20 A. I do not.
 21 Q. Did you view that as a problem?
 22 A. We would have liked for them to
 23 retain a consultant; so, you know, they
 24 clearly disagreed with our view about the
 25 urgency of bringing in a consultant.

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1 KARLEEN CARLSON STRAYER

2 Q. On page 030212 of Exhibit 1667,
 3 there's a passage summarizing discussions with
 4 David Barnes; do you see that in the middle?

5 A. That starts with "David Barnes"?

6 Q. Yes.

7 A. Okay.

8 Q. Do you recall coming away from
 9 this meeting with the impression that
 10 Mr. Barnes was generally happy with the job
 11 that AHERF management was doing up to this
 12 point in time?

13 A. I think we came away with the
 14 impression that David Barnes felt that the
 15 recent actions that management had taken were
 16 a very positive step, and I believe we
 17 remained concerned that David wasn't
 18 understanding fully the extent of the
 19 problems.

20 Q. Did you personally or did anyone
 21 else on your behalf undertake any effort to
 22 drive those points home with Mr. Barnes?

23 A. Yes, that was the whole purpose of
 24 the meeting.

25 Q. No. I'm sorry, perhaps it wasn't

1 KARLEEN CARLSON STRAYER

2 did do what we had promised the board members,
 3 which was we prepared for them a list of
 4 premier hospitals that did not have medical
 5 schools.

6 So there was a follow-up with the
 7 trustees after this meeting; specific
 8 comments, other than the general medical
 9 school issue, I can't recall at this point in
 10 time, but I definitely know there was
 11 follow-up.

12 Q. Was any action taken, if you know,
 13 with respect to this proposal of selling the
 14 combined medical school?

15 A. I am not aware of any action that
 16 was taken, no.

17 Q. So you essentially provided the
 18 board with some information about the idea of
 19 selling the combined medical school and it
 20 didn't go anywhere?

21 A. It didn't go anywhere. I mean, at
 22 this point in time, we're two months away from
 23 the bankruptcy filing, they're just about
 24 ready to let Sherif Abdelhak go. There's a
 25 lot going on at the organization right now; so

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1 KARLEEN CARLSON STRAYER

2 a clear question. I meant, subsequent to the
 3 meeting, I think you testified that you left
 4 the meeting thinking that David Barnes
 5 essentially sort of didn't get what MBIA was
 6 trying to communicate.

7 And I'm just asking you whether
 8 you or anyone else at your instruction
 9 followed up with Mr. Barnes to make another
 10 attempt at communicating to him MBIA's
 11 concerns?

12 A. We did communicate with them
 13 further. One of the things that had been sort
 14 of a theme throughout this day of discussions
 15 was that we had come to the conclusion, and I
 16 think this was, in part, for the advice of our
 17 consultant, that the medical schools were an
 18 issue and that perhaps if they decided to
 19 separate themselves from the medical schools,
 20 that that might be a positive.

21 And so, part of our dialogue here
 22 was to discuss the ability of AHERF to retain
 23 its reputation in Philadelphia without
 24 necessarily owning the medical schools.

25 So subsequent to this meeting, we

1 KARLEEN CARLSON STRAYER

2 whether they had follow-up discussions at
 3 their board meetings about the sale of the
 4 medical schools, I can't say, but we, you
 5 know, it wasn't too long after this thing sort
 6 of spun out of control.

7 Q. I guess that's sort of my point.
 8 I mean, this is about 15, 14 months into the
 9 remediation efforts after the first downgrade
 10 and after the first warning signs?

11 A. Yes.

12 Q. And I'm just curious to know
 13 whether you think this meeting, this very
 14 important meeting with the CEO of the
 15 organization and two board members --

16 A. Yes.

17 Q. -- occurred too late in the
 18 process?

19 A. I think the reason it occurred,
 20 when it did, is that none of us, and I can't
 21 speak for the board members but I can speak
 22 for myself, I think none of us in May of 1998,
 23 while we understood that this situation was
 24 very, very serious, I don't know that we
 25 understood that the hospital system was two

<p>1 KARLEEN CARLSON STRAYER 2 months away from, from bankruptcy. 3 And to my earlier point: Had the 4 financial statements indicated the losses that 5 subsequently we realized should have been 6 presented, we would have had a dramatically 7 different response in 1996, as I believe the 8 board would have also.</p> <p>9 So was this late? Yes. Was it 10 because we weren't paying attention? No. It 11 was because we did not have the full 12 information that we needed.</p> <p>13 Q. But at this point in time, this 14 credit was an 8C credit according to the MBIA 15 internal rating.</p> <p>16 A. Yes.</p> <p>17 Q. And had been for roughly two 18 months.</p> <p>19 A. Yes.</p> <p>20 Q. And there's no lower to go on the 21 MBIA internal rating than 8C in the absence of 22 payments being made by MBIA?</p> <p>23 A. Well, in the absence of a payment 24 default on the part of our creditor.</p> <p>25 Q. Right, right.</p>	<p>Page 471</p> <p>1 KARLEEN CARLSON STRAYER 2 Q. I was just asking you to draw, not 3 necessarily from this document, from just your 4 recollection of this meeting. 5 And I guess I'd just like to know 6 very briefly: Does your testimony, drawing 7 from your memory, not from this document, 8 change in any way with respect to this 9 question, if you draw from your memory?</p> <p>10 A. Well, I think our overall 11 impression of the meeting was that the 12 trustees did not share the same level of 13 concern over the financial issues, and seemed 14 to be more optimistic about recent efforts to, 15 you know, downsize, in terms of personnel, to 16 complete a sale to Vanguard.</p> <p>17 There were, there were activities 18 that were being undertaken to improve the 19 financial position and our view was the 20 trustees put more faith in those activities 21 than we did.</p> <p>22 On the other hand, having met with 23 trustees at hospital organizations, many times 24 they, of course, aren't going to sit in a room 25 full of creditors and express dismay over</p>	<p>Page 473</p>
<p>1 KARLEEN CARLSON STRAYER 2 A. Credit, excuse me.</p> <p>3 Q. Do you recall any statements that 4 Mr. Gumberg might have made with respect to 5 his view of the job that management was doing?</p> <p>6 A. I don't recall.</p> <p>7 Q. The third-to- last bullet with 8 respect to this meeting states that "The 9 trustees agree with Sherif that the 10 reimbursement problems are the significant 11 factor, depressing revenues and causing the 12 losses." Do you see that?</p> <p>13 A. Yes.</p> <p>14 Q. Just to be clear, does that 15 statement reflect the fact that Mr. Barnes and 16 Mr. Gumberg believed that the revenue problems 17 were the major factor, the most important 18 factor, depressing revenues and causing the 19 losses?</p> <p>20 A. It simply says they are the 21 significant factor; so, they apparently felt 22 that it was, was important. I don't know if 23 they considered this the "most important" but 24 that was clearly something they were concerned 25 about.</p>	<p>Page 472</p> <p>1 KARLEEN CARLSON STRAYER 2 their senior management team, no, I don't 3 believe I've ever seen that happen.</p> <p>4 Q. Did you discuss with either 5 Mr. Barnes or Mr. Gumberg the amount of 6 information that had been provided by AHERF to 7 MBIA relative to the amount of information 8 that had been provided by senior management at 9 AHERF to the AHERF board of trustees?</p> <p>10 A. I don't recall having that 11 conversation.</p> <p>12 Q. Okay. Why didn't you raise with 13 Mr. Barnes and Mr. Gumberg the issue of the 14 information that you had received if you felt 15 that there was a gap in their understanding of 16 the financial situation of the DVOG relative 17 to your understanding of the financial 18 situation of the DVOG?</p> <p>19 A. Well, if I'm understanding the 20 question, we weren't, we weren't necessarily 21 concerned that they weren't being provided 22 with the appropriate financial reports.</p> <p>23 I believe it had -- our difference 24 had to do with the way we were interpreting 25 things and the way we were viewing the</p>	<p>Page 474</p>

<p>1 KARLEEN CARLSON STRAYER 2 remember if I answered it. I don't recall. 3 Q. You don't recall one way or the 4 other whether you personally did it? 5 A. Whether I personally made that 6 point to senior management to, to be honest, 7 it is in some ways a stunningly obvious point 8 so I don't know if I would have made that 9 point to them. 10 Q. At the top of the second page of 11 this exhibit, reference is made to legal 12 review of bond documents before an MBIA bond 13 insurance policy is provided; do you see that? 14 A. Yes. 15 Q. Do you have a general 16 understanding of the text that appears below? 17 A. Yes. 18 Q. And what's that understanding, I'm 19 just trying to gain a sense as to what this 20 passage is trying to convey? 21 A. Well, we're discussing the issue 22 that was being debated at the creditors 23 committee about the collateral within our bond 24 documents, and that would affect our recovery. 25 Q. At the top of the third page of</p>	<p>Page 550</p> <p>1 KARLEEN CARLSON STRAYER 2 paragraph is that it is -- in some ways, we 3 were incredulous that you could have a system 4 like this go into bankruptcy without violating 5 any covenants at all and that was a concern to 6 us. 7 Q. But given the need for early 8 intervention with respect to troubled credits, 9 isn't it more significant what could have 10 happened in 1996 or 1997 in terms of 11 remediation efforts as opposed to -- 12 A. Oh, absolutely, no question about 13 it. 14 Q. Below is mentioned "discussions 15 with Mr. Abdelhak concerning consultants"; do 16 you see that? 17 A. Yes. 18 Q. You met with Mr. Abdelhak in late 19 April of 1998, and I'd like to know whether 20 you recall him discussing bringing in 21 consultants who would write reports as opposed 22 to doing hands-on operational tasks, whatever 23 that might mean. 24 A. Yes, I believe that we discussed 25 the fact that they had brought in McKenzie,</p>
<p>1 KARLEEN CARLSON STRAYER 2 the document, 030080, it states: "It is 3 instructive to note that DVOG declared 4 bankruptcy without violating a single 5 covenant. The measurement of its covenant 6 compliance was based on audited financial 7 statements which had not yet been issued at 8 the time of the bankruptcy filing." Do you 9 see both of those statements? 10 A. Yes. 11 Q. Is it your understanding that the 12 second statement refers to fiscal year 1998 13 audited financial statements for the DVOG? 14 A. That's how I would read that, yes. 15 Q. And why is that a significant fact 16 with respect to covenant violations that could 17 have occurred at DVOG? 18 MR. WITTEN: Objection to form. 19 A. Could you repeat the question? 20 MR. KRUSKO: Sure, would you repeat 21 that. 22 (Record read.) 23 A. I don't know that there's a lot of 24 significance put on that comment. I think the 25 more important point that's being made in this</p>	<p>Page 551</p> <p>1 KARLEEN CARLSON STRAYER 2 and McKenzie, to my knowledge, is not 3 experienced in turning around hospitals, so we 4 were disappointed that they had chosen 5 McKenzie as opposed to someone like the Hunter 6 Group or Quorum. 7 Q. Do you recall learning at some 8 point prior to the bankruptcy filing that 9 AHERF had brought in McKenzie to try to turn 10 things around for DVOG? 11 A. I believe they retained McKenzie, 12 actually. To help with issues that -- with 13 the Western entities, which was another 14 surprise to us; that the consultant they did 15 bring in didn't appear to be responsible for 16 the DVOG entities. 17 Q. Do you know whether McKenzie 18 reviewed in any way the operations of AHERF's 19 Eastern entities? 20 A. I'm not aware of any review that 21 they did of the Eastern entities. 22 Q. Did you personally or anyone at 23 your direction attempt to make -- to contact 24 the board and advise them that rather than 25 bringing McKenzie to take a look at the</p>

<p>1 KARLEEN CARLSON STRAYER 2 Western entities, AHERF should bring in some 3 sort of other consultant to look at the 4 Eastern entities? 5 A. I don't recall specifically that 6 we had that conversation. When we met with 7 Mr. Barnes and Mr. Gumberg, it's possible that 8 it came up. 9 Q. But you don't know one way or the 10 other? 11 A. I don't recall. 12 Q. The statement again on this last 13 page, "some remediations fail." Do you agree 14 with that statement? 15 A. "Some remediations fail"? 16 Q. Yes. 17 A. Well, when you have a bankruptcy 18 filing, I think at MBIA we consider that a 19 failure. 20 Q. And is that a fact just as it's a 21 fact that -- well, withdrawn. 22 At the bottom of this section, it 23 stated: "While IPM will continue its program 24 of early detection and intervention for 25 weakening credits, the AHERF experience is a</p>	<p>Page 554</p> <p>1 KARLEEN CARLSON STRAYER 2 covenant failure but also potentially a very 3 substantial negative number on the net income 4 line. 5 And the fact that the bonds had 6 just been issued in June of 1996 and a few 7 months later would have shown not only a rate 8 covenant failure but also a negative bottom 9 line and 70-plus million dollar asset transfer 10 would have been a real wake-up call, would 11 have led to, I'm sure, a stronger board 12 reaction than what actually occurred; would 13 have probably led to, you know, newspaper 14 reports on this occurrence. 15 In my almost 17 years of 16 experience in healthcare, I've never seen a 17 situation where public bond issue is done and 18 a few months later you have massive losses and 19 a covenant default; I've never seen that. 20 So it would have been news in the 21 industry; it would have been news in 22 Philadelphia, certainly; the doctors would 23 have gotten involved; so I believe there would 24 have been a lot of things that could have 25 happened in late 1996, if those statements had</p>
<p>1 KARLEEN CARLSON STRAYER 2 sobering reminder of the real-world limits of 3 credit remediation." Do you see that? 4 A. Yes. 5 Q. And that reflects the fact that, 6 once bond insurance is provided, MBIA is 7 powerless to unilaterally change the 8 applicable bond covenants? 9 MS. HACKETT: Objection, asked 10 numerous times but you may answer. 11 A. I believe that that is one part of 12 it. I mean, certainly if we had had financial 13 statements in 19 -- for fiscal 1996 that 14 showed a rate covenant failure, we would have 15 been able to effect change better and 16 potentially had a successful remediation with 17 AHERF. 18 Q. And what's your basis for that 19 statement? 20 A. Because my basis for that 21 statement is that my understanding is that 22 the, the net income position of the 1996 23 financial statements was presented incorrectly 24 in the audit and, if it had been correctly 25 presented, there would have been a rate</p>	<p>Page 555</p> <p>1 KARLEEN CARLSON STRAYER 2 shown the loss that it should have. 3 Q. Okay. But that's just speculation 4 on your part, right; you don't have any basis 5 for knowing whether there was a GAAP violation 6 in any of the AHERF audited financial 7 statements? 8 A. Could you repeat the question? 9 Q. Sure. Do you have any personal 10 knowledge of any GAAP violation in any of 11 AHERF financial statements? 12 MS. HACKETT: I'm going to object 13 to the extent that your knowledge is based 14 upon information that you've learned from 15 counsel or in the creditor's committee and, if 16 that is the source of your information, I 17 would instruct you not to answer. 18 THE WITNESS: Okay. 19 A. Then, I can't answer. 20 Q. Do you personally know of any GAAP 21 violation specifically to the DVOG financial 22 statements, audited financial statements? 23 MS. HACKETT: Same instruction. 24 MR. KRUSKO: Okay. 25 Q. Do you know of any audit failure,</p>

<p>1 KARLEEN CARLSON STRAYER 2 do you have personal knowledge of any audit 3 failure by Coopers & Lybrand? 4 A. Do I have personal knowledge? 5 Q. Yes. 6 A. Depends on by "personal knowledge" 7 do you mean have I, have I done a review of 8 the statements or workpapers myself? 9 Q. Yes. 10 A. No, I have not. 11 Q. Do you have any personal knowledge 12 of any failure but Coopers & Lybrand to comply 13 with GAAS, Generally Accepted Accounting 14 Standards? 15 A. In the sense of have I looked at 16 their workpapers to determine whether or not 17 they've complied with GAAP, no, I did not. 18 Q. With GAAS? 19 A. With GAAS? 20 Q. Yes, Generally Accepted Accounting 21 Standards? 22 MR. WITTEN: Auditing Standards? 23 MR. KRUSKO: Auditing Standards, 24 excuse me. 25 A. No, I don't have personal</p>	<p>Page 558</p> <p>1 KARLEEN CARLSON STRAYER 2 Q. Well, I believe you've testified 3 that it's now your belief that the audited FY 4 '96 financial statements for the DVOG were 5 misstated? 6 A. Yes. 7 Q. Do you have any personal knowledge 8 as to which trustees were uninformed about 9 this alleged misstatement at the time the 10 statements were issued? 11 A. I'm not aware of that any of them 12 were informed. 13 Q. Do you have any personal knowledge 14 as to the steps, if any, any trustees of AHERF 15 and/or its affiliates would, in fact, have 16 taken if they had additional information about 17 the financial condition of AHERF and/or its 18 affiliates at an earlier point in time? 19 MR. WITTEN: Objection, asked and 20 answered, I think. 21 MS. HACKETT: And your question was 22 actions the trustees would have taken if they 23 had known earlier? Objection, lack of 24 foundation, but you can answer. 25 MR. KRUSKO: And again, I'm asking</p>
<p>1 KARLEEN CARLSON STRAYER 2 experience with that. 3 Q. Outside from the representations 4 from counsel, do you have any personal 5 knowledge of any failure by Coopers & Lybrand 6 to comply with its contract with AHERF and/or 7 its affiliates? 8 A. I'm sorry, could you repeat the 9 question again? 10 MR. KRUSKO: Sure. 11 (Record Read.) 12 A. I do not. 13 Q. Do you have any personal knowledge 14 by Coopers & Lybrand to expose AHERF's 15 deteriorating financial condition, violations 16 of various dec covenants, deficient financial 17 controls and AHERF senior officials financial 18 manipulations? 19 A. I do not. 20 Q. Do you have any personal knowledge 21 as to which trustees, if any, of AHERF and/or 22 its affiliates were uninformed about the true 23 state of the financial condition of AHERF and 24 or its affiliates? 25 A. Define "true state."</p>	<p>Page 559</p> <p>1 KARLEEN CARLSON STRAYER 2 for your personal knowledge. 3 A. I would only look at their 4 behavior in 1998 when they became aware of the 5 extent of the problems, when they asked Sherif 6 to resign, and the various activities they 7 undertook at that time as somewhat indicative 8 of what they might have done earlier had they 9 known the extent of the problems. 10 Q. But I believe you've also 11 testified that AHERF trustees decided not to 12 pledge the assets of AHERF's Western entities 13 to support the Eastern entities, so, in fact, 14 there would have been no difference in the 15 eventual outcome, correct? 16 MR. WITTEN: Objection. 17 A. Absolutely not, I don't agree with 18 that statement at all. 19 Q. Do you have any personal knowledge 20 of any steps that any trustees of AHERF and/or 21 its affiliates could have taken that would, in 22 fact, have halted AHERF's financial demise? 23 A. At what point in time? 24 Q. At any point in time from the time 25 of the DVOG bond offering up to the</p>

<p>1 KARLEEN CARLSON STRAYER 2 A. No. 3 Q. Is it your belief that the time 4 frame of the bankruptcy auction process had a 5 negative impact on the amount of recovery MBIA 6 was able to obtain? 7 A. I don't know that I've ever 8 analyzed that. It was a short time frame; on 9 the other hand, hospitals were running out of 10 cash and there was -- I think some of the 11 speed with which this was being done was 12 because the senior management at DVOG did not 13 have sufficient cash to keep the doors open 14 and there were discussions about potentially 15 closing the doors to all the hospitals. 16 Q. Who at MBIA was involved with you 17 in the post bankruptcy filing remediation 18 process? 19 A. The two individuals really driving 20 this initiative were David Stevens and Pat 21 Mathis. 22 MR. KRUSKO: I don't have any 23 further questions. 24 MS. HACKETT: We will read the 25 transcript. Do you have anything further?</p>	<p>Page 578</p> <p>1 STATE OF NEW YORK) Pg__of__Pgs 2 SS: 3 COUNTY OF NEW YORK) 4 I wish to make the following changes, 5 for the following reasons: 6 PAGE LINE 7 _____ CHANGE: _____ 8 _____ REASON: _____ 9 _____ CHANGE: _____ 10 _____ REASON: _____ 11 _____ CHANGE: _____ 12 _____ REASON: _____ 13 _____ CHANGE: _____ 14 _____ REASON: _____ 15 _____ CHANGE: _____ 16 _____ REASON: _____ 17 _____ CHANGE: _____ 18 _____ REASON: _____ 19 _____ CHANGE: _____ 20 _____ REASON: _____ 21 _____ CHANGE: _____ 22 _____ REASON: _____ 23 24 25</p>
<p>1 KARLEEN CARLSON STRAYER 2 MR. WITTEN: Nothing further. 3 MS. HACKETT: We will read the 4 transcript, please. 5 THE VIDEO OPERATOR: This 6 concludes the videotaped deposition of Karleen 7 Strayer on October 9th, 2003. The time is 8 5:32 p.m. and this is the end of tape number 9 seven. 10 (Time noted: 5:32 p.m.) 11 12 13 KARLEEN CARLSON STRAYER 14 15 Subscribed and sworn to before me 16 this ____ day of _____, 2003. 17 18 19 20 21 22 23 24 25</p>	<p>Page 579</p> <p>1 C E R T I F I C A T E 2 STATE OF NEW YORK) 3 : ss. 4 COUNTY OF NEW YORK) 5 6 I, PHYLISS SALIMBENE, a Registered 7 Professional Reporter and Notary Public within 8 and for the State of New York, do hereby 9 certify: 10 That KARLEEN CARLSON STRAYER, the 11 witness whose continued deposition is 12 hereinbefore set forth (pages 274 through 581) 13 was previously duly sworn, and that such 14 continued deposition is a true record of the 15 testimony of said witness. 16 I further certify that I am not 17 related to any of the parties to this action 18 by blood or marriage, and that I am in no way 19 interested in the outcome of this matter. 20 IN WITNESS WHEREOF, I have 21 hereunto set my hand this ____ day of 22 _____, 2003. 23 24 PHYLISS SALIMBENE, RPR 25</p>

Sunstein Dep.

In The Matter Of:

**AHERF v.
PRICEWATERHOUSECOOPERS LLP**

LEON C. SUNSTEIN, JR.

May 6, 2004

LEGALINK MANHATTAN
420 Lexington Avenue - Suite 2108
New York, NY 10170
PH: 212-557-7400 / FAX: 212-692-9171

SUNSTEIN, JR., LEON C. - Vol. 1



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1 Leon C. Sunstein, Jr.
 2 A. Right.
 3 Q. Okay.
 4 A. I assume I did, but I cannot -- I
 5 cannot remember looking at this statement.
 6 Q. After you were no longer a Trustee
 7 of the big AHERF Board, did you remain a
 8 Trustee of some of the Boards that were
 9 affiliated --
 10 A. I was --
 11 Q. I'm sorry. Can you let me finish my
 12 question.
 13 A. I'm sorry. Excuse me.
 14 Q. That's all right. It makes it
 15 easier for the court reporter. And, frankly,
 16 I was stumbling over my words, so let me
 17 rephrase.
 18 After you were no longer a member of
 19 the AHERF Board of Trustees, did you remain a
 20 Trustee of some of the Boards of affiliated
 21 entities within the AHERF system?
 22 A. Well, I was on the Hahnemann Board,
 23 and I forget the names of the Board. But I
 24 was in the East, and I stayed there.
 25 Q. Meaning that you were on Boards for

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1 Leon C. Sunstein, Jr.
 2 A. But I -- I don't even remember what
 3 firm it was.
 4 Q. That was my next question. Do you
 5 recall what firm --
 6 A. No, I don't remember what firm
 7 Hahnemann had.
 8 Q. Prior to the acquisition --
 9 A. That's right.
 10 Q. -- right?
 11 A. Probably changed, anyway.
 12 Q. Do you recall in general terms that
 13 each year the Audit Committee would present to
 14 the Board as a whole the audited financial
 15 statements for approval by the Board as a
 16 whole of the audited financial statements?
 17 MR. FRIESEN: Objection.
 18 You mean the AHERF Board?
 19 MS. MEADEN: Yes, I do.
 20 A. I don't remember that being done,
 21 but expect it was. But, I don't remember
 22 that.
 23 Q. Okay. Now, as a member of the AHERF
 24 Board, did you have an understanding that
 25 there were outside professionals, such as

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1 Leon C. Sunstein, Jr.
 2 eastern entities; is that what you mean?
 3 A. Yes. Right.
 4 Q. And I wanted to ask you, during your
 5 entire tenure with the AHERF Board and all of
 6 the other affiliated Boards that you may have
 7 been on, you believed you were exercising your
 8 fiduciary duty as a Trustee; correct?
 9 A. Yes.
 10 Q. To the best of your ability;
 11 correct?
 12 A. Yes.
 13 Q. Do you recall knowing during the
 14 time that you were on the AHERF Board that the
 15 independent outside auditors for AHERF was the
 16 firm of Coopers & Lybrand?
 17 A. Yes, I thought it was Coopers.
 18 Q. Do you recall ever meeting anyone
 19 who was part of the audit team from Coopers &
 20 Lybrand?
 21 A. No, I don't remember meeting any.
 22 The reason I hesitate, I was on the Board of
 23 Hahnemann earlier, and I met some of the
 24 auditors. But, this was before the merger.
 25 Q. Do you know who the --

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1 Leon C. Sunstein, Jr.
 2 lawyers and independent auditors, who were
 3 there to assist the Board members in
 4 exercising their fiduciary duties?
 5 MR. FRIESEN: Objection.
 6 A. To assist the Board members?
 7 Q. To perform services for the Board or
 8 for the entity.
 9 MR. FRIESEN: Objection.
 10 A. The answer is, I don't remember
 11 that.
 12 Q. Do you recall -- let me back up.
 13 Are you familiar with the term in
 14 auditing parlance "clean opinion"?
 15 A. I can't give you a definition, but I
 16 have an idea what you are talking about.
 17 Q. Why don't you explain to me what you
 18 understand.
 19 A. Well, without -- some opinions come
 20 down with a lot of footnotes, and there would
 21 be a question on those.
 22 Q. I'm sorry?
 23 A. There could be a question on those,
 24 whether it gives you a clean opinion.
 25 Q. Do you recall during your time as a

30 (Pages 114 to 117)

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1 Leon C. Sunstein, Jr.
 2 member of the AHERF parent Board that AHERF
 3 ever received something other than a clean
 4 opinion on its audited financial statements?

5 A. No, I don't recall.

6 Q. And, again, you were aware during
 7 your tenure as a Trustee at the AHERF parent
 8 Board that there was an Audit Committee of the
 9 Board; correct?

10 A. Yes.

11 Q. And was it your understanding that
 12 the Audit Committee was responsible for
 13 interacting with AHERF's outside auditors with
 14 respect to the work that was being done to
 15 audit the financial statements?

16 A. The Audit Committee was, yes.

17 Q. Yes.

18 A. Yes.

19 Q. And do you recall if you relied on
 20 the Audit Committee as a Trustee of the parent
 21 Board to work with the auditors and to address
 22 any concerns that the auditors may have on the
 23 financial statements that were presented to
 24 them for review?

25 A. I would take -- excuse me. I would

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1 Leon C. Sunstein, Jr.
 2 after the bankruptcy filing where a press
 3 release was issued stating that AHERF's 1997
 4 audited financial statements could no longer
 5 be relied upon?

6 A. I don't remember that.

7 Q. Do you recall during your tenure as
 8 a member of the AHERF Board ever hearing that
 9 Coopers & Lybrand had raised questions about
 10 the accuracy or integrity of AHERF's financial
 11 statements that had been presented to them for
 12 audit?

13 MR. FRIESEN: Objection.

14 A. I don't remember.

15 MS. MEADEN: Thank you, sir.

16 Those are all the questions.

17 A. (Continued.) I don't remember that.

18 MS. MEADEN: Those are all the
 19 questions I have for you this afternoon.

20 MR. FRIESEN: I just have one
 21 set of followup questions.

22 BY MR. FRIESEN:

23 Q. If you look back on that one-page
 24 exhibit, 2563 --

25 A. Yes.

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1 Leon C. Sunstein, Jr.
 2 take that for granted.

3 Q. Based on your experience as a broker
 4 and your experience on other not-for-profit
 5 Boards, did you have any expectations as to
 6 the types of issues that Coopers & Lybrand, as
 7 AHERF's outside auditors, should bring to the
 8 attention of the Audit Committee?

9 A. I can't remember that now, having
 10 any.

11 Q. Having any?

12 A. I don't say I didn't or did. I
 13 don't remember.

14 Q. Do you recall a time when the AHERF
 15 Board, after the bankruptcy, made a decision
 16 not to continue to retain the services of
 17 Pricewaterhousecoopers, which became the
 18 successor to Coopers & Lybrand?

19 A. I wasn't on that Board.

20 Q. No, I understand. But you --

21 A. I wasn't involved.

22 Q. And you don't recall ever hearing
 23 about that?

24 A. No, I...

25 Q. Do you recall there being a time

1 Leon C. Sunstein, Jr.

2 Q. -- which Ms. Meaden just talked to
 3 you about, I just wanted to clarify one thing.
 4 Since you can't remember seeing this
 5 at the time, I take it, though, that you
 6 believe that, hypothetically, if you had seen
 7 it, just looking at it, you would have been
 8 concerned?

9 MS. MEADEN: Objection.

10 A. I can say, yes, I would be
 11 concerned.

12 MR. FRIESEN: They are all the
 13 questions I have.

14 MS. MEADEN: Thank you.

15 VIDEO SPECIALIST: That now
 16 concludes this videotaped deposition.
 17 The time, 1:58.

18 (Witness excused.)

19 (Deposition concluded at 1:58
 20 p.m.)

21 - - -

22

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24

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1 Leon C. Sunstein, Jr.
 2 Q. -- which Ms. Meaden just talked to
 3 you about, I just wanted to clarify one thing.
 4 Since you can't remember seeing this
 5 at the time, I take it, though, that you
 6 believe that, hypothetically, if you had seen
 7 it, just looking at it, you would have been
 8 concerned?

9 MS. MEADEN: Objection.

10 A. I can say, yes, I would be
 11 concerned.

12 MR. FRIESEN: They are all the
 13 questions I have.

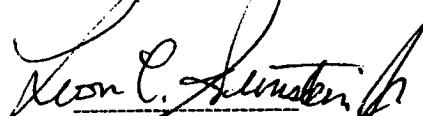
14 MS. MEADEN: Thank you.

15 VIDEO SPECIALIST: That now
 16 concludes this videotaped deposition.
 17 The time, 1:58.

18 (Witness excused.)

19 (Deposition concluded at 1:58
 20 p.m.)
 21 - - -

1 I have read the foregoing
 2 transcript of my examination given on
 3 Thursday, May 6, 2004, and it is true,
 4 correct and complete, to the best of my
 5 knowledge, recollection, and belief,
 6 except for the corrections noted hereon
 7 and/or list of corrections, if any,
 8 attached on a separate sheet herewith.

10 
 11 LEON C. SUNSTEIN, JR.

12 COMMONWEALTH OF PENNSYLVANIA
 13 NOTARIAL SEAL
 14 JANET COCCIA, Notary Public
 15 City of Philadelphia, Phila. County
 16 My Commission Expires March 11, 2008

17 Subscribed and sworn to
 18 before me this _____ day
 19 of June 04

20 
 21 Janet Coccia
 22 Notary Public

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1 I HEREBY CERTIFY that the
 2 proceedings and evidence are contained
 3 fully and accurately in the stenographic
 4 notes taken by me upon the foregoing
 5 matter on Thursday, May 6, 2004, and that
 6 this is a correct transcript of same.

7 Debra Ann Whitehead

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 (The foregoing certification of
 this transcript does not apply to any
 reproduction of the same by any means,
 unless under the direct control and/or
 supervision of the certifying reporter.)

Taylor Dep.

In The Matter Of:

*AHERF v.
PRICEWATERHOUSECOOPERS*

DEBORAH STEWART TAYLOR
June 29, 2004

LEGALINK MANHATTAN
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PH: 212-557-7400 / FAX: 212-692-9171*

TAYLOR, DEBORAH STEWART - Vol. 1



<p style="text-align: right;">Page 82</p> <p>1 DEBRA STEWART TAYLOR 2 BY MR. KRUSKO: 3 Q. Okay. Do you recall at any point in time 4 receiving a communication from anyone at PNC Bank 5 complaining about the format of audited financial 6 statements that it received? 7 A. No. 8 Q. And do you recall receiving any complaint 9 from anyone on behalf of MBIA concerning the 10 format of any audited financial statements that it 11 received? 12 MR. TORBORG: I'd like to object to that 13 question and the one before. 14 THE WITNESS: No, I don't recall that. 15 BY MR. KRUSKO: 16 Q. Are you familiar with the term master 17 continuing disclosure agreement? 18 A. I'm familiar with continuing disclosure 19 agreement. 20 Q. What's your understanding of what such an 21 agreement is? 22 A. I think that document generally is what's 23 signed up and you send information out to the 24 repositories. 25 Q. When you say you, are you referring to a</p>	<p style="text-align: right;">Page 84</p> <p>1 DEBRA STEWART TAYLOR 2 Q. Just in general. 3 A. It varies. 4 Q. Okay. 5 A. Because sometimes the obligor acts as 6 their own dissemination agent. 7 Q. In the '95 to '98 time frame, do you 8 recall Norwest serving as a dissemination agent? 9 A. On any deal? 10 Q. In any deal. 11 A. Probably. 12 Q. Okay. 13 A. But I couldn't say specifically what 14 deals. 15 Q. Would the functions that Norwest performed 16 in its, in the capacity of a dissemination agent 17 be spelled out in a continuing disclosure 18 agreement? 19 A. Could you repeat that? 20 Q. Sure. Was there any particular document 21 in those instances in which Norwest served as a 22 dissemination agent that would spell out Norwest's 23 functions in that capacity? 24 A. As a dissemination agent? 25 Q. Right.</p>
<p style="text-align: right;">Page 83</p> <p>1 DEBRA STEWART TAYLOR 2 master trustee? 3 A. No. Generally it's whoever the 4 dissemination agent is. 5 (Deposition Exhibit Number 2677 was marked 6 for identification and attached to the 7 transcript.) 8 BY MR. KRUSKO: 9 Q. Ms. Taylor, I believe you have a copy of 10 Exhibit 2677, which was Bates stamped Foley 22546 11 to Foley 22571. 12 Ms. Taylor, you just referenced a 13 dissemination agent, correct? 14 A. Uh-huh. 15 Q. What's your understanding as to what the 16 functions of a dissemination agent are? 17 A. You get the information and then you send 18 it out. 19 Q. What information are you referring to? 20 A. Whatever the, whatever the borrower sends 21 you, you send that out. 22 Q. In the typical case, based on your 23 experience, did a master trustee also serve as a 24 dissemination agent? 25 A. Are you speaking in general or --</p>	<p style="text-align: right;">Page 85</p> <p>1 DEBRA STEWART TAYLOR 2 A. Yes. 3 Q. Okay. And would that be the continuing 4 disclosure agreement? 5 A. Yes, sometimes. 6 Q. You have before you Exhibit 2677. 7 A. Okay. 8 Q. This is an unsigned document containing 9 the heading on the first page master continuing 10 disclosure agreement that came from the files of 11 Foley & Lardner. Are you familiar with the law 12 firm Foley & Lardner. 13 A. I've heard of them. Who -- I guess what 14 capacity were they in? 15 Q. That was actually a question I had for 16 you. 17 A. Oh. 18 Q. And that is whether you recall Foley & 19 Lardner? 20 A. Oh, I'm sorry. 21 Q. That's okay. Do you recall whether Foley 22 & Lardner served as an advisor or a counselor to 23 AHERF at any point in time? 24 A. I don't remember. I don't know. 25 Q. Okay. This particular continuing</p>

<p style="text-align: right;">Page 86</p> <p>1 DEBRA STEWART TAYLOR 2 disclosure agreement in the opening passage on the 3 first page, 22546, states that Allegheny 4 University Hospitals was to be the initial 5 obligated group agent. Do you see that? 6 A. Uh-huh. 7 Q. And then Norwest Bank of Minnesota is 8 identified as being the dissemination agent. Do 9 you see that? 10 A. I do. 11 Q. Okay. Do you recall whether Norwest 12 served as the dissemination agent with respect to 13 certain financial information that was required to 14 be produced under the master trust indenture for 15 the AHERF bonds? 16 A. I know that was -- could you, that was a 17 long -- 18 Q. I apologize. My question for you is 19 whether you recall that in addition to being bond 20 trustee and master trustee, Norwest served as the 21 dissemination agent for information that was 22 required to be produced under the master trust 23 indenture for what you're referring to as the 24 AHERF bonds? 25 A. I don't remember that, but it's possible.</p>	<p style="text-align: right;">Page 88</p> <p>1 DEBRA STEWART TAYLOR 2 Q. Right. 3 A. Okay, yes. 4 Q. Do you have an understanding of what an 5 annual report is just in a general sense? 6 A. I know it contains financial information. 7 Q. And at least according to the first page 8 of Exhibit 27 -- excuse me, 2677, Norwest Bank as 9 the dissemination agent was required to 10 disseminate this annual report among possibly some 11 other information, correct? 12 MR. MAGID: Objection, document speaks for 13 itself. 14 THE WITNESS: Based on this, let's see, 15 I'd really have to go through here and I don't 16 want to say yea or nay, but generally, continuing 17 disclosure agreements, the dissemination agent 18 would be required to send out the annual 19 information, wherever that might be. 20 BY MR. KRUSKO: 21 Q. And that's a reporting requirement similar 22 to what's contained in a master trust indenture? 23 A. I couldn't speak to that. 24 Q. Okay. 25 (Deposition Exhibit Number 2678 was marked</p>
<p style="text-align: right;">Page 87</p> <p>1 DEBRA STEWART TAYLOR 2 Q. Based on your experience in '95 and 3 through '98, in the general case, would a 4 dissemination agent be responsible for collecting 5 and distributing annual audited financial 6 statements? 7 A. It would be generally annual information 8 and that's whatever the borrowers provide you 9 with. So I wouldn't say specifically audited 10 financial statements but, you know, whatever the 11 borrowers provided us with, that's what we would 12 send out. 13 Q. Do you see here in section 1 of Exhibit 14 2677, in the middle there, reference is made to an 15 annual report that the obligated group according 16 to this document was required to produce, again 17 it's in the middle of the passage there? 18 A. Where it says during the fiscal year 19 immediately preceding the date of such annual 20 report? No? 21 Q. Oh, I see, yeah, just before that, do you 22 see a reference about three lines before to an 23 annual report? 24 A. Where it says to disseminate an annual 25 report?</p>	<p style="text-align: right;">Page 89</p> <p>1 DEBRA STEWART TAYLOR 2 for identification and attached to the 3 transcript.) 4 BY MR. KRUSKO: 5 Q. I believe you have what we've just marked 6 as Exhibit 2678. Ms. Taylor, the first page of 7 Exhibit 2678 is a letter from Becky Serafini to 8 Sue Gilbert, dated November 10th, 1997, to which 9 you were copied without enclosures, correct? 10 A. That's what it appears to say here. 11 Q. Do you recall receiving or reviewing this 12 letter? 13 A. No. 14 Q. Do you recall receiving or reviewing the 15 draft amendment which is attached to this letter? 16 A. No. 17 Q. Do you recall working with a woman by the 18 name of Becky Serafini at any point in time? 19 A. Yes. 20 Q. Is it your recollection that in this time 21 frame, November 1997, Ms. Serafini was an attorney 22 with Foley & Lardner? 23 A. That, I don't remember. I mean, I've 24 worked with her in the past. And I've worked with 25 her on different deals, so I couldn't really speak</p>

<p>1 DEBRA STEWART TAYLOR 2 I meant but -- 3 BY MR. KRUSKO: 4 Q. More generally, in connection with what 5 you're terming the AHERF bonds, do you recall 6 providing information to PNC bank? 7 A. I don't recall. I mean, we sent a lot of 8 information out and so, you know, I can't say a 9 definite yes or a definite no. But, you know, if 10 I said here that we were going to send it to them, 11 more than likely we did. 12 Q. With respect to Exhibit 418, do you recall 13 seeing this letter at any point in time prior to 14 today? 15 A. No. 16 Q. Do you have any understanding as to what's 17 being conveyed in this letter? 18 A. I mean, it sounds like they are sort of 19 changing the format of their financial reports or 20 their audited statements. 21 Q. But that's just based on a quick scan of 22 the document here today? 23 A. Yes. 24 MR. KRUSKO: I don't have any further 25 questions.</p>	<p style="text-align: right;">Page 142</p> <p>1 ACKNOWLEDGMENT OF DEPONENT 2 I, DEBRA STEWART TAYLOR, do hereby 3 acknowledge that I read and examined the foregoing 4 testimony, and the same is a true, correct, and 5 complete transcription of the testimony given by 6 me and any corrections appear on the attached 7 Errata sheet signed by me. 8 9 _____ 10 (DATE) (SIGNATURE) 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25</p>
<p>1 DEBRA STEWART TAYLOR 2 MR. TORBORG: I have no further questions. 3 MR. MAGID: We'll read and sign. 4 THE VIDEOGRAPHER: We are going off the 5 record. This marks the end of the deposition of 6 Ms. Taylor. The total number of tapes used was 7 two. The time now is 2:29 p.m. and we are off the 8 record. 9 (Signature having been not waived, the 10 deposition of DEBRA STEWART TAYLOR was concluded 11 at 2:29 p.m.) 12 13 14 15 16 17 18 19 20 21 22 23 24 25</p>	<p style="text-align: right;">Page 145</p> <p>1 CERTIFICATE OF SHORTHAND REPORTER - NOTARY PUBLIC 2 I, Cynthia R. Simmons, Registered 3 Merit Reporter, Certified Realtime Reporter, 4 the officer before whom the foregoing deposition 5 was taken, do hereby certify that the foregoing 6 transcript is a true and correct record of the 7 testimony given; that said testimony was taken by 8 me stenographically and thereafter reduced to 9 typewriting under my supervision; and that I am 10 neither counsel for or related to, nor employed by 11 any of the parties to this case and have no 12 interest, financial or otherwise, in its outcome. 13 IN WITNESS WHEREOF, I have hereunto 14 set my hand and affixed my notarial seal this 15 5th day of July 2004. 16 My commission expires: 17 September 30, 2008 18 19 NOTARY PUBLIC IN AND FOR 20 THE DISTRICT OF COLUMBIA 21 22 23 24 25</p>

Thomas Dep.